

Message Text

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PAGE 01 SEOUL 03914 100857Z

ACTION EA-12

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E.O. 11652: N/A

TAGS: EAID EFIN SHUM IBRD KS

SUBJ: IBRD LOAN: KOREA DEVELOPMENT BANK III

REF: A. STATE 117682, B. STATE 69284, C. SEOUL 2191

1. BHN ASPECTS OF PROJECT, WHICH IS A LOAN FOR RELENDING, ARE DIFFICULT TO ANALYZE IN ADVANCE OF RECEIPT OF ACTUAL SUBLOAN PROPOSALS. THEREFORE, EMBASSY CONSIDERS THAT FAVORABLE VOTE SHOULD BE BASED ON THE PROBABLE CREATION OF APPROXIMATELY 10,000 NEW JOBS THROUGH THE LIFE OF THE PROJECT. EMPLOYMENT, WHERE UNEMPLOYMENT AND UNDEREMPLOYMENT REMAIN MAJOR PROBLEMS AND WHERE SOCIAL WELFARE SERVICES HAVE YET TO BECOME SIGNIFICANT, MEETS VERY BASIC HUMAN NEEDS.

2. KDB III, FOR \$110 MILLION, IS BASICALLY SIMILAR IN PURPOSE TO THE PREVIOUS TWO LOANS FROM IBRD IN 1972, FOR \$60 MILLION, AND IN 1976, FOR \$82.5 MILLION. IT IS INTENDED TO COVER JUST UNDER ONE-HALF OF KDB'S FOREX COMMITMENTS FROM JULY 1, 1978 TO JUNE 30, 1980, FOR DEVELOPMENTAL PROJECT LENDING. PREVIOUS LOANS TO KDB HAVE SUPPORTED 92 PROJECTS IN ALL SECTORS OF THE ECONOMY INCLUDING 33 SMALL AND MEDIUM SIZED LEASING PROJECTS THROUGH THE KILC (KOREA INDUSTRIAL LEASING CO. LTD.), A BANK SUBSIDIARY. \$10 MILLION OF THE PROPOSED LOAN WOULD BE IN THE FORM OF A DESIGNATED SUBLOAN TO KILC.

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PAGE 02 SEOUL 03914 100857Z

3. SUBLENDING CEILING WOULD BE LIMITED TO \$7.5 MILLION ON ANY ONE PROJECT AND NO MORE THAN 25 PERCENT (\$27.5 MILLION) OF THE LOAN PROCEEDS COULD BE USED IN ANY SINGLE INDUSTRY OR SUBSECTOR. PREFERENCE WILL BE GIVEN TO BORROWERS IN THE ELECTRICAL, MINING, SHIPBUILDING, IRON AND STEEL, ELECTRONICS, EXPORT, IMPORT SUBSTITUTION (INCLUDING NECESSARY RAW MATERIALS),

INDIGENOUS AND LABOR INTENSIVE INDUSTRIES AS WELL AS ANY OTHER INDUSTRIES WHICH MAY BE OF PRIORITY TO THE ROKG. THE BANK WILL OFFER TECHNICAL SERVICES, MANAGERIAL ASSISTANCE AND ENCOURAGE TECHNOLOGY INDUCTION TO ITS BORROWERS.

4. ROK MEDIUM INDUSTRY COOPERATIVE LAW DEFINES A FIRM AS "MEDIUM" IF IT HAS FEWER THAN 200 PERMANENT EMPLOYEES AND LESS THAN WON 50 MILLION IN ASSETS, AND A BUSINESS AS "SMALL" IF IT HAS FEWER THAN 20 PERMANENT EMPLOYEES AND ASSETS OF LESS THAN WON 10 MILLION. EARNINGS OF WORKERS IN SMALLER BUSINESSES TEND TO HINGE ON THE SCALE AND DEGREE OF MECHANIZATION OF THEIR FIRMS. THEREFORE, THE \$10 MILLION KILC PORTION OF THE LOAN TO BE USED FOR MACHINERY LEASING WILL BE OF DIRECT BHN SIGNIFICANCE TO WORKERS EMPLOYED IN FIRMS WHICH CAN MANAGE TO LEASE BUT CANNOT AFFORD TO PURCHASE ADDITIONAL CAPITAL EQUIPMENT. TO THE EXTENT THAT THE LEASING PROGRAM MIGHT BE EXTENDED TO NEW ENTERPRISES, NEW EMPLOYMENT OPPORTUNITIES WOULD BE CREATED AT A RATE OF ONE EMPLOYEE FOR EACH \$5,000 OF EQUIPMENT TO BE LEASED.

5. THE \$100 MILLION PORTION (WHICH IN ADVANCE CANNOT BE ASSOCIATED WITH BORROWERS' SIZE), TO BE PLACED AS INDICATED PARA 3 ABOVE, WOULD HAVE THE EFFECT OF CREATING AT LEAST 10,000 JOBS INASMUCH AS PREVIOUS IBRD EXPERIENCE INDICATES THAT IN KOREA, ON AN ASCENDING SCALE, \$5,000 IN CAPITAL MACHINERY CREATES ONE JOB IN SMALL AND MEDIUM INDUSTRIES WHILE THAT FIGURE RISES TO LIMITED OFFICIAL USE

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PAGE 03 SEOUL 03914 100857Z

ABOUT \$11,000 FOR THE VERY LARGEST AND MOST CAPITAL INTENSIVE ONES.

6. PROJECT MEETS KEY HUMAN NEED FOR EMPLOYMENT. KDB HAS MADE EFFECTIVE USE OF THE FIRST TWO LOANS AND, IN THE LIGHT OF RECENT AFFIRMATIVE U.S. VOTE ON SIMILAR \$50 MILLION ADB LOAN TO KDB, PROJECT DESERVES AFFIRMATIVE U.S. VOTE. ON THE OTHER HAND, ABSTENTION BY U.S.G. WOULD BE TOTALLY INCONSISTENT WITH CONTENTS REFTELS (B) AND (C).
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